MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BLE2074 – LABOUR ECONOMICS

(All sections / Groups)

8 OCTOBER 2016
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TWO (2)** sections in **SEVEN (7)** printed pages:
   Section A: Twenty (20) Multiple Choice Questions
   Section B: Three (3) Structured Questions

2. Answer **ALL** questions in the answer booklet provided.

3. Marks are shown at the end of each question.

SECTION A: TWENTY (20) MULTIPLE CHOICE QUESTIONS (40 marks)

1. Which of the followings is the assumption of the economic perspective?
   a. Relative scarcity
   b. Resource utilization
   c. Resource efficiency
   d. Productive efficiency

2. Which of the following is an example of the social perspective of payoffs from studying labour economics?
   a. To what extent does a college education contribute to higher earnings?
   b. Should Malaysian immigration policy be liberalized or made more restrictive?
   c. What rate of return can you expect from investing in higher education?
   d. If you are a woman, how might discrimination affect your access to specific occupations and your earnings?

3. If hourly wage rate decreases from $20 to $15, Ali's hours of work will
   a. decrease if substitution effect is greater than income effect.
   b. decrease if substitution effect is equal to income effect.
   c. increase if substitution effect is greater than income effect.
   d. increase if substitution effect is equal to income effect.

4. Suppose the basic benefit is $2500 and the benefit reduction rate is 25%. What is the break-even level of income for a family that earn an income of $2000 in this income maintenance program?
   a. $1000
   b. $2000
   c. $8000
   d. $10000

Refer to the case below to answer **question 5 and 6**.

Suppose a hypothetical country has a total population of 100 million, of which 7 million are unemployed, 15 million are under 16 or institutionalized, 25 million are eligible to work but not in the labour force, and 53 million are employed.

5. What is the labour force participation rate?

   a. 70.6%
   b. 60.0%
   c. 53.0%
   d. 85.0%

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6. What is the unemployment rate?
   a. 7.0%
   b. 8.2%
   c. 10.0%
   d. 25.0%

7. Which of the followings make a difference in human capital investment?
   a. Uncertainty of earning
   b. Differences in income level
   c. Uncertainty of economic recession
   d. Difference in education level

8. Fido is now working in a job that pays $10000 per year. He is considering a one-year automobile mechanics course that costs $1000 for books and tuition. Fido expects that the course will increase his income to $13000 in each of the three years following completion of the course. After three years, he plans to retire. Assume the current interest rate is 10%. Is it economically rational for Fido to enroll in the course?
   a. No because the net present value is –$21,329.08.
   b. Yes because the net present values is $21,329.08.
   c. Yes because the net present value is $31,329.08.
   d. Yes because the net present values is $32,329.08.

9. The law of diminishing marginal returns states that
   a. as more units of good consume, the marginal utility will decline.
   b. as more units of inputs are added to production, the marginal product of the input will decline.
   c. as more units of inputs are added to production, the output will double.
   d. as more units of inputs are added to production, the output will decline.

10. Which of the following example reflected derived demand?
   a. When there is high demand for chili, the demand for chili pickers will increase.
   b. When the purchasing power of chili buyers is high, the demand for chili pickers will increase.
   c. When there is economic growth, the demand for chili pickers will increase.
   d. When the cost of production to produce chili is low, the demand for chili pickers will increase.

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11. In a perfectly competitive market, profit-maximizing level of employment is reached when
    a. the marginal revenue product is lesser than wage.
    b. the marginal revenue product equals to wage.
    c. the marginal revenue product is greater than wage.
    d. the marginal product is equal to wage.

12. Which of the followings is the determinant of elasticity of labour demand?
    a. Product demand
    b. Number of employers
    c. Labour productivity
    d. Ratio of labour costs to total costs

13. Which of the following is not related to labour market efficiency?
    a. Workers are being directed to their highest-valued uses.
    b. Labour is being allocated efficiently when society obtains the largest amount of domestic output deom the given amount of labour available.
    c. Available labour is efficiently allocated when its values of marginal product is the same in all alternative employments.
    d. Labour is fully utilized in the process of production.

14. An efficient allocation of labour is realized when
    a. labours are being directed to their highest-values uses.
    b. the marginal revenue product equal to wage.
    c. labour resources are fully utilized.
    d. labours are allocated efficiently.

Refer to the situation below, answer **question 15 and 16.**

Suppose Malaysian government decides to tax fringe benefits as ordinary income.

15. What would happen to the slopes of the typical worker's indifference curves?
    a. Steeper
    b. Flatter
    c. Vertical
    d. Horizontal

16. How would this affect the optimal amount of fringe benefits?
    a. Remain unchanged.
    b. Increase.
    c. Decrease.
    d. Indifferent.

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17. Which of the followings is the source of compensating differentials?

a. Job scope
b. Wage premium
c. Job security
d. Career prospect

18. The skill differential refers to

a. the difference in pay between skilled and unskilled workers.
b. the difference in fringe benefits between skilled and unskilled workers.
c. the difference in pay between outperformed and underperformed workers.
d. the difference in fringe benefits between outperformed and underperformed workers.

19. Generally, salaries of state governors are far below those of similarly qualified top executives in the private sector. What makes the wage differential persist?

a. State governors receive compensating wage differentials such as fame, prestige, and power.
b. Executives in the private sector receive compensating wage differentials in terms of higher salaries.
c. State governors receive compensating wage differentials in terms of higher fringe benefits.
d. Executives in private sector receive compensating wage differentials in terms of better working environment.

20. What might a person who actually enjoys working outdoors in extremely cold temperatures benefit from the more general worker preference for employment in climate-controlled buildings or in mild outdoor temperatures?

a. Higher premium wage.
b. More fringe benefits.
c. Higher job status.
d. More job security.

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SECTION B: THREE (3) STRUCTURED QUESTIONS (60 marks)

Question 1

(a) Briefly describe **FOUR (4)** types of discrimination in labour market. Provide an example for each type of discrimination. (12 marks)

(b) Suppose the market wage for specific white workers is \$16 per hour, while the wage for equally productive African-American workers is \$ 12 per hour. Under these circumstances, infer the dollar value of the discrimination coefficient (d), using Becker's taste for discrimination model, for an employer that hires:

(i) All white workers (2 marks)

(ii) All African-American workers (2 marks)

(iii) Illustrate the wage discrimination using the diagram of demand for and supply of African-American workers. (4 marks)

[Total marks: 20 marks]

Question 2

Given the following news:

Minimum wage in Malaysia to be raised in July

KUALA LUMPUR: Come July, the minimum wage will be raised to RM1,000 (S$342) for workers in peninsular Malaysia and RM920 for those in Sabah, Sarawak and Labuan as announced in Budget 2016.

Addressing workers on Labour Day yesterday, Prime Minister Datuk Seri Najib Tun Razak said the Government was also considering putting into place an insurance scheme to help both workers and employers to cope with a more demanding labour market.

"The new minimum wage, effective from July 1, is an increase of RM100 (11 per cent) for workers in peninsular Malaysia and RM120 (15 per cent) for Sabah, Sarawak and Labuan," he said during the national-level celebration attended by over 5,000 workers at the Putra World Trade Centre.

With the new minimum wage to boost productivity, Najib said the Government expected a more equitable distribution of income between capital owners and workers. The implementation of the national minimum wage policy in 2013, he pointed out, had already benefited 1.9 million private sector workers, which was later extended to the public sector via a new salary scale as announced recently.

Source: Article was adapted from http://business.asiaone.com/news/minimum-wage-malaysia-be-raised-july.

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Based on the news above, answer the following questions:

(a) Illustrate how the newly-implemented minimum wage might affect employment in Malaysia. Assume Malaysian labour market is competitive. (5 marks)

(b) Briefly explain how the newly-implemented minimum wage could result in the following outcomes.

(i) Reduce teenage employment (5 marks)

(ii) Reduce investment in human capital (5 marks)

(iii) Leave the poverty rate unchanged (5 marks)

[Total marks: 20 marks]

Question 3

Read the following passage.

200,000 jobless graduates

PETALING JAYA: There are currently 200,000 unemployed graduates in the country – not including those who have just completed their diplomas, certificate programmes and Sijil Pelajaran Malaysia (SPM).

According to the Malaysian Employers Federation (MEF), last year alone, some 26,000 people were retrenched and more expected this year.

"Job seekers are not picky and they are more than willing to take up jobs, said MEF executive director Datuk Shamsudin Baradan.

During these hard times, he said people are not choosy about jobs they do as long as they can earn a decent wage.

He pointed out that the formal job sector can only take about 6.5 million workers and at present there are two million foreign workers and with the rehiring programme another two million are expected to register.

"This makes it four million foreigners in the formal job market while under the 11th Malaysia Plan it was supposed to be capped at 15%," he said.

Shamsudin was responding to reports that that not many Malaysians were willing to work in the dirty, difficult and dangerous (3D) fields.

Deputy Prime Minister, Datuk Seri Ahmad Zahid Hamidi had said that if they were willing to do such jobs then there would be no need to bring in 1.5 million Bangladeshi workers.

"Bringing in more foreigners is not healthy for the labour market as there is already a high proportion of foreigners in the formal job market," said Shamsudin.

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Malaysia Trades Union Congress (MTUC) secretary-general N. Gopal Kishnam said the government needs to carry out a detailed study of the job market before deciding to bring in more foreign workers.

He said local workers are slowly losing out to foreigners because foreigners, legal or illegal are willing to work for lower salaries.

He said 15 years ago there were many Malaysians working in 3D jobs but this has been taken over by foreigners.

He went on to say that at the present standard of living RM900 is not enough for a Malaysian to make a living.

Gopal pointed that there were over 300,000 Malaysians working in 3D jobs in Singapore because they are able to have a decent standard of living.

He said the claim that Malaysians are unwilling to work in 3D jobs is not right, all they need is a decent wage to work in this sector.

Source: Article was taken from http://www.thesundaily.my/news/1693673

Based on the passage above, answer the following questions:

(a) Explain the wage impact of easing policies on foreign workers' entry in the Malaysian labour market using an appropriate diagram. Assume that the Malaysian labour market is perfectly competitive and has no minimum wage law. (10 marks)

(b) Discuss **TWO (2)** advantages and **TWO (2)** disadvantages of having foreign workers in Malaysia's labour market. (10 marks)

[Total marks: 20 marks]

End of Paper